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Briefing Notes:

A Summary of Best Practice Approaches in Strategic Planning Processes

Introduction

While Lou Gerstner, past Chairman and CEO of IBM, was orchestrating IBM's turnaround in the 1990s, he famously commented that it doesn't matter what your strategy is, as long as you have one.[1] Being clear about an organization's strategic goals provides focus and helps managers understand how to direct their resources and make decisions on a daily basis. At the same time, strategic plans themselves do not necessarily result in a successfully implemented strategy. Consider President Dwight Eisenhower's military wisdom, "plans are nothing. Planning is everything." Though he never found much use for the plans themselves, the planning process was indispensable.[2]

There is no single "best practice" for how to do successful strategic planning. The timing and process will differ depending on industry, market pressures, and the size and culture of the business. In the past, a five to ten year strategy time horizon was common, yet today we see how difficult it is to plan beyond two or three years. As eBay CEO Meg Whitman said, "companies used to have strategy meetings once a year. Now we have them every two weeks."[3]

Strategic planning is typically oriented to a particular organization's circumstances at a particular time in its history. However, there are a number of proven and effective practices and methodologies that can be adapted for virtually any business. This document provides a brief overview of current "best practices" and considerations for managers to explore throughout the strategic planning process.

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[1] Gerstner, Lou. *Who Says Elephants Can't Dance?* New York: Harper Collins, 2002.
[2] Bonney, Joseph. "Learning from Eisenhower," *Commonwealth Business Media Journal of Commerce,* September 2004.
[3] Sanghera, Sathnam. "You Should Be Bonkers in a Bonkers Time!" <u>Financial Times</u> 23 Sept. 2003, London Edition: Features p16.

Best Practices

The American Quality and Productivity Center's International Benchmarking Clearinghouse analyzed the strategic planning processes of 45 top companies, including Alcoa, Deere & Company, Frito-Lay, Shell International Petroleum Company, Whirlpool and Xerox Corporation. The following is a summary of many of the best practices employed by these highly successful corporations, as revealed in the Clearinghouse's 1996 strategy study.

1. Stretch goals drive strategic out-of-the-box thinking. While different organizations use different parameters, all of the best practice companies set targets that required a shift from business as usual.

2. Their planning processes are evolving and flexible. A "continuous improvement" philosophy guides the planning-process design.

3. Communication of the strategic plan is a formal and significant element of the process and it is viewed as a measure of quality planning.

4. Planners emphasize action plans and strategic thinking. Planners expect strategic thinking to take place primarily at the business unit level.

5. The planners' distinction between strategic planning and business planning is increasingly blurred. As the cycle time between strategic plans shortens, business planning is done within the context of a strong corporate vision or culture, even if a corporate strategy is not articulated.

6. The role of strategic planning as a key element in the management system is explicitly recognized through strong links to other elements of the management system (e.g., strong human resources and organizational structures).

7. Documentation of strategic thinking is stressed.

8. A single core competence or capability is not the driver of strategic planning. Instead, the basis for competitive advantage and new business development is based on diverse competencies.

9. Approaches to planning processes and planning system designs vary greatly. Although approaches vary, the framework of issue and option generation, prioritization, review and feedback continues to have universal relevance.[4]

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[4] APQC. Strategic Planning: Final Report. Houston, TX: American Productivity & Quality Center, 1996.

Strategy As Ecology

Viewing the business environment as an ecosystem can be a useful analogy when thinking about strategic planning. Much like organisms in a biological ecosystem, businesses also form complex interdependent networks, where the health of one organization can affect the well-being of the entire system. In assessing the environment, it is helpful to consider an organization's business function in the ecology. In their article "Strategy as Ecology"[5] authors Marco Iansiti and Roy Levien define a set of roles to assess how different organizations function in their particular ecosystem. They include:

- *Keystone (Value Dominator)*—The business is at the center of a complex and dynamic ecosystem. It must manage available resources, respond to crises, and share wealth to get the best sustainable performance from the ecosystem. eBay, the keystone of a multibillion dollar online sales industry, is an example.

- *Physical Dominator*—If a business is part of a complex network in a stable and mature industry, it can become a Physical Dominator, which absorbs and controls the ecosystem's components until it becomes its own self contained ecosystem. Though few true Physical Dominators exist in the modern business world, large oil companies, like Royal Dutch Shell and BP, are examples. They control products through drilling, refinement, and distribution.[6]

- *Niche*—If a business holds a lesser position in an erratic industry, a specific niche may be the best strategy. By focusing on a highly specialized industry function, a firm can develop the expertise to differentiate from competitors and fill a particular need in a volatile industry. For example, small "heart hospitals" providing focused cardiovascular care have recently sprung up all over the United States

- *Commodity*—In the case of a commodity business, strategy beyond efficiency may not be relevant to an ecosystem setting. However, certain actions may be necessary to ensure that the ecosystem (and client base) thrives. Corn syrup producers in the snack food industry supply a commodity.

To illustrate the ecosystem idea consider the following: a large company such as Microsoft depends on a network of retailers, resellers, distributors, systems integrators, and outsourced programmers, all of which in turn depend on Microsoft. In this example, Microsoft is the keystone of the ecosystem, an academic reseller would fill a niche position, and a CD manufacturer would fill a commodity position.

Thinking about strategy as ecology can help a business make decisions that positively affect the network it depends on. Viewing networks as complex

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[5] Iansiti, Marco, and Roy Levien. "Strategy As Ecology," *Harvard Business Review,* March 2004.
[6] Berkman, Leslie. "Gas Hikes: Plenty of Blame to Go Around." *The Press Enterprise* 23 May 1999: A Section: p1.

interdependent ecologies ultimately allows business leaders to choose a course of action that benefits their own interests and the well-being of their ecosystem.

Strategic Planning: A Participatory Process

Srategy expert Gary Hamel looks at strategy as a revolution. He believes that a strict top-down approach to the strategic planning process leads to rigidity and an inability to strategize appropriately within a firm's ever-evolving environment. Today, successful strategic planners include a breadth of people in their planning processes. Examples include:

- *AT&T's Transmission Systems Business Unit*—AT&T asks its employees to review the organization's strategic plan and works with customer focus groups to infuse the client focus.

- *IBM's Research Unit*—IBM works with internal business units, its business partners and external customers to fine-tune its strategic planning.

- *Brown University*—Brown took an overall participatory approach to its strategic planning process, which planners designed to be as open and inclusive as possible. They used a number of tools to increase communications among employees, faculty and students (e.g., memos, announcements and a Website).

- *Nokia*—Nokia has developed a participatory strategic planning process that includes feedback from thousands of employees.

- *The World Bank*—The World Bank encourages recipients of financing to include participatory strategic planning in their business plans.

Adding a broad range of perspectives into the planning process allows firms to capture the expertise of front-line and implementation-level staff while also capturing crucial competitor and client information from customers and suppliers. Strategic planning should not be a democratic process, but carefully designed participation and periodic input from all levels of company staff is valuable to the planning process.

Strategic Narratives

Strategic planning for most companies evolves as a complex process of quantitative analysis, assessments about the business environment, intense conversations, and difficult tradeoffs that often leads to nothing more than a bulleted list of strategies. The complexity of the process and the assumptions that underlie the strategy become lost or live only in the heads of the executives that participated in the planning process. As a result, the strategy can seem ungrounded, abstract and even difficult for employees to understand. Take the following strategies from a real company as an example:

■ Reduce overhead and high costs

■ Expedite product development and line extensions

■ Make customer service more responsive

■ Increase market share by 15%

■ Increase profits by 25%

This strategy could be applied to virtually any enterprise. The bullets communicate relationships and priorities on the most basic level, and while they may contain a vision, they ignore the complex processes and organization needed to actually realize these aims.

In his article "Strategic Stories: How 3M is Rewriting Business Planning," author Gordon Shaw describes how planners at the 3M corporation use *strategic narratives* to communicate strategy. To describe strategic problems and objectives, they create a story structured like a fiction piece, with a *setting, dramatic conflict* and *resolution.*

Framing strategy in this manner is clear, specific, and even entertaining. In addition, information communicated in story form has a much higher absorption rate than bulleted lists. A story can help people understand organizational strategy throughout the organization. With a shared understanding of the strategy, staff can use it to guide their daily decision-making in accordance with it.[7]

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[7] Shaw, Gordon et al. "Strategic Stories: How 3M is Rewriting Business Planning," *Harvard Business Review,* May–June 1998.

The Balanced Scorecard Approach

The balanced scorecard is a multifaceted evaluation tool that combines both financial and non-financial factors to measure company performance. Based on their experience, Robert Kaplan and David Norton developed the approach around the idea that impressive financial returns are only one of the important factors to consider when assessing the success of a business.

A balanced scorecard evaluation should take into account a range of objectives in different categories, including both leading and lagging indicators. A sample scorecard is provided below.

Strategic Objectives	Strategic Measures
Financial	
Improve returns	Return on investment
Broaden revenue mix	Revenue growth, revenue Mix
Reduce cost structure	Service cost change
Customer	
Increase satisfaction with our products and people	Share of Segment, Depth of Relationship
Increase after sale satisfaction	Customer retention, satisfaction survey
Internal	
Understand our Customers	Customer satisfaction score
Create innovative products	New product revenue, product development cycle
Cross-sell products	Cross-sell ratio, hours with customers
Shift Customers to Cost-Effective Channels	Channel mix change
Minimize operational problems	Service error rate
Responsive service	Request for fulfillment time
Learning	
Develop strategic skills	Strategic job coverage ratio
Provide strategic information	Strategic information availability ratio
Align personal goals	Employee satisfaction, personal goals alignment, percentage revenue per employee

A balanced set of criteria such as the ones above paint a more complete picture of a company's performance. Each of the metrics would include specific quantitative targets to help an organization measure its progress against established goals
(e.g., increase new product revenue by 25%). Beyond strategic planning, another common application of the balanced scorecard approach today is in determining

executive compensation. Companies are beginning to assess executives' performance by linking their compensation directly to stated strategic goals.[8]

Looking to Core Competencies as Key Success Factors

John Kotter and James Heskett spent over 11 years studying the performance of 200 companies. In their book, *Corporate Culture and Performance* (1992), the authors found that high-performing firms shared a number of similarities. These included a strong culture, targeted strategies appropriate for specific lines of business, the ability to adapt quickly within a changing environment and a focus on core competencies to deliver value to their stakeholders. In their article, *The Core Competence of the Corporation,*[9] C.K. Prahalad and Gary Hamel explain that core competencies are those strategically important variables within an organization that are durable, difficult to duplicate and offer significant customer value. Look first to the organization's product and service offerings and work backward to uncover where your firm's core competencies rest.

Maintain an Overall Customer Focus: The Wal-Mart Experience

As a member of Fortune's top ten list of America's Most Admired Companies, Wal-Mart attributes its vast success to its ability to focus on customer needs. David Glass, Director and former CEO of Wal-Mart Stores, Inc., said, "We have made it to where we are today by appreciating and satisfying our customers and associates—they are the people who make the difference."[10] Wal-Mart focuses not only on its customers' needs, but also encourages participatory involvement of its staff. Further, its information technology strategy involves a sophisticated data mining plan. Randy Mott, former Senior Vice President and Chief Information Officer explained, "Our investment in data mining is part of Wal-Mart's drive to deliver what its customers want: the right item, at the right store, at the right time and at the right price."[11]

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[8]Kaplan, Robert S. and David P Norton. *The Balanced Scorecard.* Boston: *Harvard Business School Press,* 1996.

[9] Hamel, G., and C.K. Prahalad. "The Core Competence of the Corporation," *Harvard Business Review,* May – June 1990.

[10] Press Release, "Wal-Mart Achieves Top Ten Ranking in Fortune's List of America's Most Admired Companies," Bentonville, *AR,* February 1999.

[11] Press Release, "Wal-Mart Deploys NeoVista Decision Series Data Mining Software in its Production Decision Support Environment," Chicago, IL, May 1997.